

## **Budget and Fiscal Affairs Advisory Committee – October 21, 2014**

**Present:** David Baker, Margaret Gullen, Dak Hardwick, Benjamin Klein, Patrice Linehan, Laurie MacNamara, Skip Maginniss, John Renner (Chair), Leonard Rubenstein, Brent Simer, Jean Sun Kim, Michael Wenk

**Excused:** Engin Artemel, Clarence Tong

**Staff:** Nelsie Birch, Alex Braden

BFAAC Chair, John Renner, called the meeting to order at **7:07pm**

**Approval of the Minutes** - Mike Wenk made a motion to approve the minutes from the September 2014 meeting and Jean Sun Kim seconded the motion. The minutes were approved.

### **OMB Report**

**a. August 2014 Monthly Financial Report** - There are no real trends in this second report, except a bit of a dip in the real estate numbers. The early numbers are almost a million dollars under the projected revenue, and the softening of the real estate numbers is something to watch. Last month, it was reported that two hotels closed. A new hotel is opening so it seems as though hotel revenue might balance out. There is a regional influence in this area of the budget. In November, there will be a more detailed study of the revenues from the first quarter, which will make it easier to project out.

The City is expecting a decrease in revenue coming from the state due to anticipated cuts in spending. Right now, there is an \$865,000 shortfall and the City is anticipating the need to pay \$600,000 in local aid to the state because of Virginia House Bill 599. Once we find out what the state cuts will be, the City leaders will have to prioritize spending or reduce the current level of service to off set the loss from the state. A few suggestions were made by BFAAC members about ways to cut costs (e.g., not filling vacancies, etc.); however, the conversation was tabled until more reliable revenue projections could be made.

The City leaders have the authority to reallocate money from the fund balance but that's not the best option. Last year, the decision was made to take three million dollars out of the fund balance for expenses related to the heavy snowfall. There are other examples of when there was a need to do this in the past.

A BFAAC member reported that there might be federal money that could be authorized for emergency funding for dealing with Ebola training and other needs. It will be important to watch for any additional revenue sources that become available.

**b. 5-year Financial Plan** - The staff is rolling out the five year financial plan internally now to make sure City departments understand what it happening. The staff will talk to the Council on November 8th so BFAAC will receive the plan at the same time as it goes to Council, likely during the first week of November. It's a draft plan right now, and the policy questions will come up as part of the budget process. As a first step, the staff is looking to BFAAC for an endorsement of the assumptions made in the five-year financial plan.

- Is the format and presentation clear?
- Can we get a clear understanding of the plan?
- Are the assumptions underlying the policy options that are being presented reasonable?
- Are the right policy level questions being posed for the Council to consider as part of their dialogue and discussion?
- Are we focusing on the right issues? If not, what are the other key issues?

We correct annually for deficits now so it will really help solve imbalances ahead of time. BFAAC should look at what we suggested as part of our discussion of the five-year financial plan in the past. There was a question about whether the plan will be in complete enough form to begin commenting on the substance. The staff confirmed that the plan would be substantive but noted that the Council will be

seeing it for the first time. So, a conversation with Council is needed once they have some time to absorb the information in the five-year financial plan.

January would be a good time to revisit the plan in more detail. BFAAC will receive it when Council gets it, and we can all have it read by the November meeting. It will be on the meeting agenda for more discussion then. There was a question about whether the report will reflect some kind of priority setting. The staff responded that there are five or six policy areas that are recommended in the report to address (e.g., storm water)

**c. FY 2016 Budget Process Development** - Many of the major shifts in the Budget Process Development relate to civic engagement. October meetings on the budget are not in context because the work is just getting started and much of the Council guidance comes following the November retreat. Part of the development process is about making meaningful use of this time. By getting input early. So, the BFAAC discussion moved quickly to the Civic Engagement section of the agenda.

**d. Civic Engagement Update** – The City used a vendor to create AlexEngage, which is a web-based tool to gather input from the public regarding budget priorities and expected outcomes. The staff sent the survey link to various commissions and encouraged BFAAC members to pass it along to their contact lists. At the time of the meeting, 470 people had looked at the AlexEngage site. The goal is 1000 views for this first iteration. The survey responses and comments will close on November 5<sup>th</sup>. The survey is one tool that can be presented to the Council.

All Boards and Chairs, Civic leaders and other organizational leaders were invited to have a conversation with the Council about how to best engage in the process. Many conversations around budget issues and prioritization are occurring among like-minded groups in isolation. It is important for various special interest groups to come together in the same room to hear from one another and learn what the trade offs are within a limited budget – e.g., if affordable housing is a priority, how will it fit into the overall budget process when other priorities are competing for funds?

In November, the input will be shared with the Council. The departmental budget requests will be used as a structure for having public conversations in focus groups in January. There was a brief exchange about whether the focus groups should be organized around the City focus areas groups can target the budget in more specific ways to meet the goals of that focus area, or whether it is better to mix groups so participants gain a deeper understanding of competing budget priorities.

The City is doing something that has never been done before in Alexandria. We've never had a conversation about how we are allocating money. The idea is to link the activities of each department to the outcomes. That way, if there is a particular cut, and people rally together to oppose the cut or advocate for a funding increase, we will have a better understanding of what the trade offs are and how other areas of the budget will be effected by any changes.

The AlexEngage site asks survey participants to share their zip code. So, we may see differences in what is important to people who live or work in one zip code compared to another part of the City. If zip code responses are dramatically different regarding the way the budget is prioritized, that can be informative.

It is important to stress that the results of the survey will completely drive the priorities. The survey is one data source for collecting input from the public but the Council could be perceived as going against the wishes of the citizens when they make a budget decision that is necessary but not popular. For example, there are some funding priorities that come through mandates, such as the need to address storm water and sewers.

The public will need to be educated about the fiscal situation of the City, and the way various projects are funded (e.g., Potomac Yard), so that the Council does not end up feeling a backlash from the public for making sound decisions that deviate from the public input. The Council is especially vulnerable during an election year, and it's too early to tie this too closely to the five-year plan. Distrust is not going to be overcome in a year but public education around the budget process is a positive development. The staff

has made significant progress in this area through the *What's Next Alexandria* process, development of the Civic Engagement Handbook and the current efforts around the budget process.

Overall, BFAAC likes the participatory budgeting approach but there was some concern about how the public will react if a popular budget item is not funded. The best part is the potential for educating the public and getting people in the room together to see how the trade offs can be made. In a year when the motto is “*flat* is the new *up*”

## **Other Business**

**a. Staff Response to the BFAAC report** – BFAAC reviewed the handout that outlined the status of each recommendation. Some things need direction from the Council. So, while they may be completed from a staff perspective, they are not resolved because Council action is needed. There was some discussion about the date the School Board adopts the Alexandria City Public Schools (ACPS) budget. The joint City-Schools workgroup and their staffs have been working together to align the budget calendars so the School Board can adopt their budget before the maximum tax rate is announced.

BFAAC commended the staff for the substantive report that was prepared in response to the BFAAC recommendations. The Chair stated how much BFAAC appreciates the comprehensive report and wanted to publically acknowledge the thorough and multi-faceted staff response. It takes valuable staff time to collect the information from the various departments (e.g., Human Resources, Finance, Results Alexandria, etc.) and BFAAC understands that many internal City agencies contribute to the report. The Chair asked the OMB staff to convey our appreciation to the other department leaders.

The staff said they will continue to work with Council to complete any ongoing tasks and updates will be delivered to BFAAC in March.

**b. Add/Delete Process Sub-Committee Update** - The Add/Delete Subcommittee has met twice. The Council representatives are John Chapman and Paul Smedberg. Tom Gates and Nelsie Birch are the staff representatives and Dak Hardwick represented BFAAC. The staff presented the historical context and did a great job. Of particular note is the fact that the “add/deletes” account for .03 of the final budget, but take the bulk of the time and deliberation. Some of the main points and recommendations were discussed:

- The add/delete process is a symptom of a larger problem with the front loading of questions to staff that are needed to help Council members better understand how City departments operate - i.e., We are asking staff questions to determine how things are run in the City at the same time we are talking about the budget.
- The subcommittee recommended eliminating the budget spreadsheet so the focus is on budget guidance. Don't prescribe, keep it short, and allow the City staff to do their job.
- There was a discussion about getting rid of budget memos
- Instead of having a line item budget, the subcommittee would like the Council to use a specific form when making changes, and require four out of seven Council members to add their names to the change request which promotes early consensus-building among Council members.

The recommendations have been forwarded to Council and they will determine which changes, if any, will be made to the add/delete process. The resolution will be made during a legislative session. The Council to make some goal statements during the retreat and the next step will be to link the budget changes to the goals they set. There is a need for continuity across budget years so it's important to address the structural issue by deciding what is needed in advance. This changes the conversation to what the public “wants” instead of talking about existing services and then making decisions in terms of “cuts.” We think the services are good and it's painful when they are cut, but we have to frame the discussion by beginning with the priority goals.

It's noble to tie it the budget to the goals but the process breaks down when it becomes too politicized and the deletes aren't real. If the add/delete changes are adopted, advocates for specific budget items will have to work with more Council members to get something passed at the last minute. As BFAAC

transitioned to the next agenda item, participants noted that everything is becoming more transparent. The Council is changing the culture and BFAAC recognizes that the culture change will take some time but is pleased to see many of the previous BFAAC recommendations implemented. Everything is going in the right direction, the five-year plan is in development and the public is being engaged and educated so there is healthy participation.

**c. Memo to Council on Budget Guidance Update** - BFAAC reviewed the memo drafted by Ben Klein and Dak Hardwick. There were some comments and questions that followed.

- Revise the reference to land use to get at the more specific balance with commercial development
- Note the strategic partners
- The debt policy section needs to stress the need to educate the public on how it's being funded, noting that some projects are supported by non-general fund dollars – e.g., bonds are paying for the metro
- Strengthen the language about the need to examine the existing debt policy guidelines because the current language implies that we should keep looking at it when we know we are going to have to accrue more debt if we move forward with the metro
- Include a statement about the need and how much of the need we are addressing as well as who is being served

The suggestion about determining unmet needs in the City generated some discussion.

- Some activities are easier to measure than others – e.g., It's more difficult to measure preventative measures and maintenance
- Prioritization is important

There was also a conversation around how the five-year plan might lead to more consistency in addressing unmet needs and proactive planning across budget years.

- A framework is needed for City employees because the employee groups point to the fact that it's not a dedicated prong on the budget
  - The five-year plan includes a lot of explanation of the benefits structure
  - City employee groups need to know where we are moving in the long-term
  - Employee compensation plans for all the employee groups will help anticipate what will happen from year to year
  - A strategic view of compensation options that can inform decisions over the long-term
  - Planning and more consistency across budget years is expected to result in better employee retention rates
  - Other quality of life issues could be options e.g., Pay for performance

The planning that is underway will help create consistency of planning. Once the plans and guidance are in place, the department manager can work with teams to implement the plan with maximum flexibility. BFAAC strongly encourages the Council to commit to a long-term strategy rather than addressing the issue in a tactical way.

Mike Wenk made a motion to adopt the memo. David Baker seconded the motion to adopt and the memo was approved unanimously. The BFAAC members thanked Dak Hardwick and Ben Klein for preparing the memo that will be submitted to Council on behalf of BFAAC.

**d. Tax/Budget Calendar Discussion** - The budget calendar was discussed as part of the budget development process earlier in the agenda.

The Chair recognized and expressed appreciation to Margaret Gullen for her 10 years of service to BFAAC. Ms. Gullen's term expired and Skip Maginniss will be the new Chamber of Commerce representative to BFAAC. There was a motion to adjourn from David Baker, which was seconded by Len Rubenstein. The meeting was adjourned at 9:03pm. Next Meeting: November 18, 2014 at 7:00pm in Sister Cities #1101, City Hall

*Minutes respectfully submitted by Patrice Linehan*